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# ***Socio-Economics –An Overview***

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by

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## **A b s t r a c t**

*Socio-Economics is a multi-disciplinary, holistic approach to economics that has gained growing acceptance in legal education and that is helpful in advocating economics justice. Socio-economics approaches economic understanding much as Adam Smith did (before there were separate disciplines) with a foundation based on natural and moral philosophy. Nevertheless, it explicitly acknowledges the powerful and pervasive influence of the neoclassical paradigm on contemporary thought. Recognizing that people first adopt paradigms of thought and then perform their inductive, deductive, and empirical analyses, socio-economists seek to examine the assumptions of the neoclassical paradigm, develop a rigorous understanding of its limitations, improve upon its application, and develop alternative, perhaps complementary, approaches that are predictive, exemplary, and morally sound. Grounded in the scientific method, socio-economics draws upon all relevant schools of thought and disciplines that shed light on economic phenomena and policy. It is a helpful foundation for exploring economic issues based on university-wide interdisciplinary collaboration in the public interest.*

\* \* \* \* \*

Although the term “socio-economics” has been used for over a century by many people in many contexts, a particular definition of socio-economics has gained broad support among law teachers in recent years as a useful statement of its methodological principles for addressing law-related economic issues. Accordingly, in this article, “socio-economics” refers to the definition set forth in the petition that established the Section on Socio-Economics of the Association of American Law Schools (AALS) that was signed by over one hundred twenty law teachers from over fifty American Law Schools. With minor amendment, the definition reads as follows:

“Drawing upon economics, sociology, political science, psychology, anthropology, biology and other social and natural sciences, philosophy, history, law, management, and other disciplines, socio-economics [1] regards competitive behavior as a subset of human behavior within a societal and natural context that both enables and constrains competition and cooperation[;] [2] [r]ather than assume that the individual pursuit of self-interest automatically or generally tends toward an optimal allocation of resources, . . . assumes that societal sources of order are necessary for people and markets to function efficiently[; and] . . . [3] seeks to advance a more encompassing interdisciplinary understanding of economic behavior open to the assumption that individual choices are shaped not only by notions of rationality [and self interest] but also by emotions, social bonds, beliefs, expectations, and a sense of morality.

“Socio-economics is . . . dedicated to the empirical, reality testing approach to knowledge. It respects both inductive and deductive reasoning. But it also openly recognizes the policy relevance of teaching and research and seeks to be self-aware of its normative implications rather than maintaining the mantle of an exclusively positive science. Although it sees questions of value inextricably connected with individual and group economic choices, socio-economics does not entail a commitment to any one paradigm or ideological position, but is open to a range of thinking that treats economic behavior as involving the whole person and all facets of society within a continually evolving natural context.

“Unique among interdisciplinary approaches, however, socio-economics recognizes the pervasive and powerful influence of the neoclassical paradigm on contemporary thought. Recognizing that people first adopt paradigms of thought and then perform their inductive, deductive, and empirical analyses, socio-economists seek to examine the assumptions of the neoclassical paradigm, develop a rigorous understanding of its limitations, improve upon its application, and develop alternative, perhaps complementary, approaches that are predictive, exemplary, and morally sound. “

Implicit in this definition is an approach to economics that suspends a number of critical assumptions underlying the neoclassical paradigm, including the assumptions that (1) people behave rationally, according to the definitions of rational behavior extant in neoclassical economics; (2) people act only with self interest; (3) income distribution is in accordance with marginal productivity theory under conditions of perfect competition; (4) preferences are exogenous; (5) such factors as race, gender, class, and nature can be ignored or encapsulated within the market; and (6) the best starting point for economic analysis is one that accepts as essentially factually accurate, or approximately factually accurate, the existence of conditions necessary for perfect competition, including no barriers to market entry, perfect knowledge, zero transactions costs, and others.

However, socio-economics does more than suspend these assumptions. Rather, based on principles of natural and moral philosophy relied upon by Adam Smith, and drawing upon all relevant disciplines, socio-economics is a positive and normative approach that aspires to present a factually rigorous, holistic understanding of economic behavior that is both paradigm-conscious and value-conscious, yet at the same time, largely, though not entirely, paradigm- and value-neutral.

The positive aspect of socio-economics is grounded in the scientific method rather than any particular discipline within the social or natural sciences. The paradigm-consciousness of socio-economics reflects a recognition that the determination of facts, depend on systemic rules (i.e., paradigms of analysis) for determining them. (Thomas S. Kuhn, *The Structure of Scientific Revolutions*, 43-51, 2d ed.1970). In socio-economics, the definitions, assumptions, logic, and applicability of paradigms are not taken for granted, but are open to examination. It is in requiring a proper foundation before applying a paradigm (or a rule or statute) in context that vests socio-economics and legal decision-making with a high degree of paradigm-neutrality. Its paradigm-neutrality also reflects a willingness to examine conflicting paradigms from a mutually agreed frame of reference which includes basic elements of the scientific method: i.e., a consideration of the extent to which particular paradigms are (1) based on reasonable, workable, testable assumptions; (2) internally consistent; and (3) useful in describing past events and predicting and influencing future events.

Being largely paradigm-neutral, socio-economics does not require the adoption of any particular school of economic thought. Whether neoclassical economics or another school of economics, or psychology, biology, political science, or some other expertise, or one or more of the sometimes conflicting schools of thought within an expertise are useful will depend on context. Only in limited contexts will a single discipline or school of thought tell the whole story, and neither law nor socio-economics is foundationally beholden to any one discipline.

Yet the paradigm-neutrality of socio-economics is subject to limitation. A commitment to logical coherence, inductive and deductive reasoning, empirical evidence, and the scientific method, as well as paradigm- and value-consciousness, does assume a basic approach to understanding.

Although described by some as a new paradigm, socio-economics is more accurately understood as a principled methodology, quite consistent with legal methodology, that is well-suited to compare, critique, and employ different paradigms in particular contexts and for particular purposes. As defined, socio-economics is therefore in harmony with legal decision making in that it requires judgment to be based on general rules applied to particular circumstances in relevant context by way of a process that is “due.” Thus, like legal decision making, socio-economic analysis requires a proper foundation upon which to employ a particular discipline in specific contexts while disregarding alternative approaches that lead to different conclusions.

Moreover, because it is an interdisciplinary approach founded on the scientific method, socio-economics is not burdened by the prejudicial credentialism that sometimes hinders the appreciation of important insights based on analytical approaches from outside the borders of a particular discipline. Thus, one need not be an economist to be a socio-economist. Like a competent lawyer, the competent socio-economist can competently rely on the expertise of other professionals. Therefore, people from a broad spectrum of disciplines and economic persuasions can be socio-economists. Nevertheless, good socio-economics requires good economics.

Normatively, socio-economics reflects a commitment to do good research that does good: research that will make positive difference in the world. Moreover, like the good lawyer, the good socio-economist must distinguish between the important issues and those that are less important, and devote time and attention accordingly. But this commitment to focus on the good and important does not require specific agreement as to what is good and what research will do important good. Such considerations are left to the individual conscience. Thus, socio-economic is said to be both value-conscious and yet largely value-neutral. Beyond its commitment to the good and the important, socio-economics is value-conscious in several additional respects : It requires a recognition that values (1) are implicit in paradigms and (2) affect economic behavior in ways that frequently cannot be reduced to discreet variables.

Being largely paradigm- and value-neutral, socio-economics does not generally require specific conclusions regarding controversies, problems, or solutions. Therefore, socio-economists may or may not agree on the comparison, critique, or employment of one or more paradigms within a particular context; but with a socio-economic foundation, the substance of the agreements and disagreements that unite and divide them are better understood. Thus, the socio-economic approach provides an inclusive, intellectual foundation on which a diverse array of disciplines, and schools of thought within disciplines, can contribute to understanding, and on which a broad spectrum of people can beneficially participate with mutual respect for their disparate methodologies.

Notwithstanding the fact that socio-economics is largely paradigm-neutral, implicit in the socioeconomic approach is the proposition that the distribution of wealth, opportunities, and risks can matter significantly both normatively and positively. Consequently, in many important contexts, (1) distributional considerations must not be excluded from the positive aspects of economic analysis, (2) distributional issues cannot be treated as purely exogenous factors, and (3) distribution cannot be assumed to be determined by factor marginal productivity. As in law, in socio-economics distributional issues are inherent in the positive as well as the normative analysis.

According to the socio-economic approach, efficiency maximization cannot be understood entirely or even primarily in terms of marginal efficiency analysis without reference to the socio-economic context, including social institutions, changing technology, nature, and the distribution of wealth, power, opportunities, and risks along with their effects over time. Moreover, although agreeing with neoclassical economics that prices affect distribution, socio-economists give

equal representation to the fact that distribution also affects prices. Therefore, contrary to the one-sided neoclassical approach that prevails in much of the law and (neoclassical) economics literature and teaching, socio-economics holds that there is no single well-defined goal of optimal efficiency at any point in time to guide legal decision-making that is independent of distribution.

More important, socio-economists recognize (1) that the neoclassical approach to efficiency is not a general theory of growth and wealth maximization (as it is falsely advanced by many who espouse principles of law and (neoclassical) economics in many educational, political, and social contexts) and (2) that wealth maximization cannot be understood entirely or even primarily in terms of efficiency maximization. The accumulating wealth of nations (the focus of Adam Smith's inquiry) is not synonymous with the "efficiency" that is advanced as a proxy for wealth maximization in the law and (neoclassical) economics literature. <sup>1</sup>Indeed, in a rapidly imploding economy with everyone starving to death at an accelerating rate, efficiency (whether defined by Pareto, Kaldor-Hicks, or anyone else) could be wholly satisfied.

Although accurately perceived as a positive and normative response to the "law and neoclassical economics" approach that widely and misleadingly passes for "law and economics," socio-economics is that and more. The United States was founded on the assumption that a constitution that advances basic rules and values can effect a change in the way people who respect it behave. The definition socio-economics sets forth a specific foundational approach to rules of intellectual rigor, honesty, and fair play related to economic issues. Therefore, the definition of socio-economics offers a constitution that can provide the foundation for a school of thought distinct not only from law and economics, but also from legal realism, critical legal studies, critical race theory, feminism, postmodernism, and communitarianism.

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<sup>1</sup> For example, at page 252, of his *Economic Analysis of Law*, (6th Edition 2003) Judge Posner writes: "What Adam Smith referred to as a nation's wealth, what this book refers to as efficiency, and what a layman might call the size of the pie, has always been an important social value." To equate Adam Smith's *Wealth of Nations* and what a layperson might call the size of the pie, is a fair statement. But to equate those two with the "efficiency" of "law and (neoclassical) economics" is not accurate.

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